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Diversification and family business: The case of Grupo Rocha

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Resumo

Pesquisas prévias não conseguem expor todas as razões pelas quais as empresas familiares diversificam. Tampouco respondem à seguinte questão: Como a estratégia de diversificação influencia os resultados corporativos e as relações familiares entre os membros da empresa? De modo a contribuir para o desenvolvimento académico no campo, estudamos um grupo empresarial brasileiro de médio porte com a finalidade de perceber quais foram as circunstâncias que incitaram o grupo a diversificar. Para além disso, procuramos saber quais foram os efeitos desta mesma diversificação no decorrer do crescimento do grupo.

Ao longo da pesquisa, observou-se que, em ambientes específicos, a estratégia da diversificação pode trazer oportunidades às empresas familiares que não são igualmente alcançáveis por empresas não familiares. No entanto, também propomos que, a longo prazo, a diversificação pode comprometer o futuro da organização, visto que esta intensifica o processo erosão das relações entre membros da família.

Esta questão é crítica para o desenvolvimento teórico no campo, uma vez que a literatura contemporânea se concentra, essencialmente, em poderosos grupos empresariais, mas negligencia os estágios que os levaram a emergir. Ademais, possui alta relevância prática dado que, embora a maioria das empresas familiares em mercados emergentes tendam a se diversificarem, os seus gerentes possuem pouca orientação sobre os efeitos desta estratégia em seus objetivos financeiros e não-financeiros. Ainda que seja um estudo de apenas um caso, acreditamos que as nossas propostas possam aumentar a conscientização sobre as oportunidades e riscos da estratégia de diversificação em mercados emergentes e oferecer novas ideias no âmbito das vantagens e riscos de estabelecer um grupo empresarial.

Palavras-chave: Diversificação, Negócio familiar, Estudo de caso, Grupo Rocha, Brasil.

Abstract

Prior research has not fully explained why family businesses diversify. Neither can they answer the following question: How does the diversification strategy affects the family ties and firm's performance? While aiming to contribute to the academic field, we studied a medium-sized Brazilian business group to understand what were the circumstances that prompted the group to diversify. In addition, we seek to know what were the effects of the diversification strategy during the development of the group.

Throughout the research, we observed that in specific environment conditions, diversifying might bring opportunities to family firms that non-family companies will struggle to capture. Nevertheless, we also propose that, on the long-run, the diversification strategy could also jeopardize the future of the family business since it intensifies the erosion of relations between its members

This issue is critical for further theoretical development in the field given that contemporary academic research has been over focusing on titanic business groups, thus neglecting the developmental stages that led the it to emerge. Furthermore, it also holds high practical relevance, since current family managers have little guidance on what effects the diversification strategy might have on their financial and non-financial goals, even though most of growing family businesses in emerging markets tends to diversify. Despite being a single-case study, we believe our propositions could enhance awareness of the opportunities and risks of diversifying on emerging markets. Additionally, they may also offer new researchers distinctive ideas on how to appraise the advantages and downsides of a business group.

Keywords: Diversification, Family Business, Case Study, Grupo Rocha, Brazil.

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Chapter 1
Introduction

The Family Business (FB) is a peculiar type of organization. It exists on the boundaries of two qualitatively different social institutions, the family and the firm, which are dictated by different and sometimes diverging forces (Lansberg, 1983). Whereas the business' main goal is to increase profitability, the family is more concerned on preserving ties, contradictory motivations that are doomed to collide. It is troublesome, as a result, to exactly define what is a FB, regarding that it is compounded by a miscellany of idiosyncratic relationships that vary widely among organizations and cultures. Not surprisingly, economists do not think such enterprises are efficient enough to thrive on a competitive atmosphere (Davis, 1983).

The diversification strategy has also been considered unwelcome. Following the conglomerates' massive dissolutions throughout the 80s and 90s, unrelated ventures started being seen as unnecessary on the eyes of shareholders, who could very well diversify by themselves (Porter, 1996), and deeply connected with agency issues (Jensen, 1986). Given the unpopular views of both major concepts in the present work, why then to study them together?

The current state-of-art provides enough evidence to understand that, in developed markets, FB consistently hurt profits due to lack of professionalization and conflicts of interest (Bennedsen et. al., 2007), mainly when it goes beyond the lone founder structure (Miller et al., 2007). However, it does not explain how some of them over-perform its competitors outside mature economies. In fact, much of these companies usually do better by diversifying in unrelated industries, proved by the fact that investors pay a premium price to acquire its stocks (Khanna and Rivkin, 2001). Such a statement completely contradicts mainstream academic research, meaning that these markets must work distinctively when comparing to more sophisticated ones. In fact, when the diversification strategy, FBs and Emerging Markets (EMS) coexist, a new corporate model emerges: The Business Group (BG) (Granovetter, 2010).

Following this line of thought, the author has proposed the following research question: “Why do Family Business diversify?”. This is relevant because we believe current answers to the debate are too strategically-driven, meaning that they do contemplate the business’ viewpoint, but leave behind intrinsic family forces. Hence, we found out two examples of diversification approach that have not been scrutinized in academic literature 1. FB diversify to avoid opportunity costs and 2. FB diversify while suffering from family disruptions. Further, we developed a second research question deeply linked with the former so to understand the consequences of the diversification venture in relation to the family and the business as two separate entities — How does the diversification strategy affects family ties and firm’s performance? Regarding the first part of the answer, we were able to separate positive and negative results regarding the motivation for diversification, revealing it has a strong effect on profitability. Nevertheless, regarding the effects of such strategy on family ties, a sociological approach is more convenient. Thus, even though it was observed that the motivation towards the decision to diversify affects family relationships, further research is needed so a more conclusive result might be achieved.

We believe this work can contribute to academic research by proposing new methods to look towards the diversification on FB. Additionally, it might aid Small and Medium Businesses (SMBs) to spot harmful diversification decisions and to focus on constructive motivations.

The thesis is divided in five parts. During the second chapter, a thorough literature review on the topic will be undertaken. Current definitions of both FB and Diversification will be exposed, benefits and downsides acknowledged and, lastly, the empirical implications of what happens when these both concepts coexist. On the third chapter, the methodological approach — Case Study — is going to be scrutinized. The following part is meant to examine Grupo Rocha's case, whereas, on the fourth chapter, the results of the research will be shown. Finally, a conclusion of what was previously analyzed will end the work.

Chapter 2
Literature Review

2.1 Family Business

2.1.1. What is Family Business?

The FB is a particularly curious type of organization. It does not simply follow a market-oriented approach, nor is it solely family-focused. Despite its contradictions, the FB's historical role in the development of market economies is undeniable and, what is more, is still a prominent business structure both in terms of quantity as well as market-relevance up until modern times (Lansberg, 1983). In fact, it is believed that, nowadays, still 80% of all business ventures are familiar (Carsrud, 1994), though this number may vary depending on the place and source of information. Regardless, its importance is unmistakably growing, as shown in the rising numbers of research articles and business programs in the past decades (Sharma, 2004; Benavides-Velasco et al.).

Despite all the attention regarding the topic, the definition of FB has been a constant subject of debate on academic literature. In truth, there is no universal concept that can be applied to it up until the point in time under discussion (Carsrud, 1994; Sharma, 2004; Wortman, 1994) and the designation has been used at the discretion of authors due to the ambiguities that persist among specialists (Desman & Brush, 1991).

Among the biggest problems related to its essence, the degree of control and ownership necessary for the company to be categorized as familiar is highlighted (Handler, 1989). On the one hand, it is indisputable in literature that, once managed and with its corporate structure belonging to the same household, the business is, effectively, familiar (Chua, Chrisman and Sharma 1999; Olson et al., 2003).

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Nevertheless, the breadth of uncertainty is widened when the business is either managed or owned by the family.

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On the perspective of property as a predominant factor of classification, the vast majority of authors defends the control of the company's shares as the *conditio sine qua non for* the firm to be considered familiar. Additionally, amid these authors there are those who vindicate the need for the organization to be entirely controlled and managed by a single family, either by criteria of pure consanguinity (Barnes and Hershon, 1976; Barry, 1975) or emotional ties (Carsrud, 1994), and others who extend the definition to more than one clan (Stern, 1986).

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On the other hand, within the management angle, scholars define the dominant coalition as the main argument against the need for the majority of shareholders to be inside the household. In this case, the influence overlaps the concept of corporate control, since it can be exercised through quotas and/or family participation in the management board of the company (Davis, 1983). Once this alliance is dominant in decision-making areas, — where negotiating power and influence on the organization's objectives, results and budget are high (Cyert & March 1963) — a business might be reckoned as familiar regardless of the nature of its shareholders (Holland & Oliver, 1992). Such view is only suitable, however, when there are succession plans in the leadership of the company on the part of the coalition (Handler, 1989).

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In fact, even though it is not part of the management/shareholder dualism, the problem of succession is approached by some authors as fundamental to define a FB. Moreover, according to this line of thought, the transference of power to the following generations is what defines the essence of the family firm *versus* the owner-managed, or "lone founder", business (Churchill & Hatten, 1997; Miller et al., 2007). The noteworthiness of the topic is highlighted by the fact that succession (17.4%) has been the most common research area on FB's literature for the past 57 years (Velasco, García and Parra, 2011).

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Facing these differences, some authors have tried to condense the main features of the above-mentioned definitions so to cover the concept of FB in a more inclusive and less selective way and to thoroughly capture the contrasts between family and non-family businesses. Chue, Chrisman and Sharma (1999) consider FB to be "governed and/or managed with the intention to shape and pursue the vision of the company held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". The addition of the vision's standpoint is deeply embodied on the controlling ownership and consequent potential succession perspective. On the other hand, in managed but not owned family firms, these conditions are not intrinsically met, so there is the need to make sure that the shared vision among household members for succession exists before defining whether the firm is familiar or not.

More recently, the Family Business Expert Group (2009, p.10), based on the proposed Finnish description in 2006, defined that a FB should fit the following criteria: Firstly, "the majority of decision-making rights" must be "in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs". Even though "to establish the firm" does not necessarily require ownership, it seems implicit in the rest of the sentence that some degree of shared control is needed. Secondly, a family firm can only be labeled as such if "the majority of decision-making rights are direct or indirect", a claim that, combined with the first condition, indicates that share control does not have to be absolute, as long as it is enough to exercise the right to make decisions either through power or influence when needed. Thirdly, "at least one representative of the family or kin is formally involved in the governance of the firm." This condition utterly eliminates family-owned but not managed businesses. And finally, that listed companies only meet this criterion when "the person who established or acquired the firm or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital."

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This definition is far less inclusive than Chue. Chrisman and Sharma's (1999). Whereas the former only demands some degree of control through the dominant coalition and successiveness potential, the latter makes both a degree of ownership and management participation required for the company to be fully accepted into the family's conceptualization. These are some hypothetical examples of how the subject has been constantly debated between specialists. In the present work, the Family Business Expert Group definition (2009) will be used since the specificity of the proposed concept is less ambiguous.

2.1.2. Family versus Business

"Are family firms different from other business organizations?". This question proposed by Sharma (2004, p.3) is conceptually easy to answer, but pragmatically more complex. Even though some divergences are notorious, there is still a lack of certainty regarding the actual nature of a FB (Wortman, 1994). The first problem regards the complications of delineating a boundary. The first chapter was consequently relevant since definitional ambiguities have been troublesome when trying to understand whether a family firm is more or less prone to economic success than other enterprises (Chrisman, Chua, Pearson and Barnett, 2012). Secondly, family interactions are complicated and consistently debated on psychological and sociological literature (Granovetter, 2010). Hence, its influence on the business may come from so many fronts that it is beyond the scope of any project to figure them all.

Essentially, though, FB exist on the boundaries of two qualitatively different social institutions — the family and the firm — with diverging objectives inherently connected within their natures. The family is fundamentally altruistic (Davis, 1983). In fact, biologically speaking, Hamilton (1964) proposed that kinship selection is so deeply rooted within the nature of the human species so to promote the multiplication of the genes that one rather help clan members in need than increasing his own *fitness*. On the other corner, market transactions are organically believed to be purely

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selfishly-driven (Smith, 1853). Moreover, whereas the social relations in the family are structured to satisfy family member's various developmental needs, social ties in the firm are mainly guided by norms and principles that facilitate the productive process (Lansberg, 1983). These two opposing forces that exercise power in this idiosyncratic type of business can jeopardize the well-being of the firm, which might explain why only 13% of successful family companies survive through the third generation (Ward, 2016). Nonetheless, they can also bring potential advantages that are sometimes overlooked by researchers and specialists, which would explain the logic behind the continued vitality of FBs, despite the social, psychological and organizational obstacles intrinsic in its structure (Davis, 1983).

It is commonly accepted in management literature that the downsides in the FB structure exist in different activities due to the institutional overlap, in which company and family's roles are overly interconnected and not clearly defined, thus generating conflict (Lansberg, 1983; Davis, 1983). One issue that arrives from this juxtaposition of objectives is the rationale that unconditional help should always be granted to relatives who are in need (Lansberg, 1983; Granovetter, 2010). Although an ordinary family exercise, it is not a healthy practice from a business standpoint, since the hiring of too many incompetent individuals can, in fact, threaten the effectiveness and possibly the survival of the firm. Another concern comes with compensation and equity. According to Lansberg, the norms and principles that regulate the process of giving and getting in the family are qualitatively different from the rules and doctrines that govern the same process in the firm: the exchange of resources in the family is guided by effective implicit principles that focus each person's attention on the needs and long-term well-being of the other, rather than on economic principles and the meritocratic value of the employee. To prove that point, FBs usually rather keep the firm's ownership and control in the hands of family members instead of hiring outside employers or using external financial resources (Muñoz-Bullón and Sánchez-Bueno, 2012). These situations can bring to the surface the problems surrounding nepotism, – when the ground rules that define fairness in the task system are violated and family members are given rewards and privileges in the firm to which they are not

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entitled on the basis of merit and competence — consequently raising conflicts between family and non-family employees (Lansberg, 1983). Biased performance evaluations and superfluous training funding to family members are other concerns embodied to nepotism. Thus, it is not surprising that these complex relationships occasionally lead to the business' downfall, which takes on average 24 years, not coincidently a period that happens to match that of the average tenure of most founders (Lansberg, 1983).

Tagiuri and Davis (1996) went on arguing that there are indeed overlapping priorities and roles within the members of a family firm that might imperil its well-being. Still, these bivalent attributes could also bring advantages and opportunities facing other companies, depending on how they are dealt with. Furthermore, the simultaneous roles exercised by family members — regarding ownership, management and the family position — are risky in the way that the individual may be overly-concerned with the welfare of the household and further neglect the business or vice-versa, which in one way or another is likely to culminate in distress (Sharma, 2004). Even so, when one or more relatives have simultaneous roles, decision-making can be centralized and efficiently increased, and loyalty among members escalated (Tagiuri and Davis, 1996). Additionally, owner management should reduce agency costs — associated with conflicts of interest between agents and principals (Ross, 1973) — and the moral hazard issue, since it naturally aligns the owner/managers' interests on growth opportunities and risk and assures that managers will not expropriate shareholder wealth through the consumption of perquisites and the misallocation of resources (Schulze et al., 2001). According to Fama (1983), even when control and management are separated in a family firm between its members, the agency costs are more easily controlled due to the existence of "special relations" amid its members. Insofar as family owner and managers keep valuing the interests of the other as much as their own, managers will not be considered agents, but stewards who will devote their efforts to the common interest of both parties (Chrisman et al., 2007).

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The bivalence of attributes is also noticeable in the relationships nurtured through the history of the company and in the meaning of the FB to its members: if the relationship's foundations are rock solid, adversities might be easier to deal with, and the mutual attachment towards the enterprise channeled to the benefit of both the business and the family. In contrast, early disappointments can reduce trust among relatives, complicate work interactions and create an unhealthy rivalry for control among members (Ward, 2016; Tagiuri and Davis, 1996). In this scenario, inasmuch as the manager does not identify himself with the family creed and is no longer motivated by intrinsic rewards, he might change his steward role and become an agent so to capture extrinsic personal advantages instead (Davis et al., 1997).

In fact, even though the success on turning these bivalent attributes in favor of the firm depends on the family current emotional status, the financial situation might endanger its existence. It is commonsensical that the "warm hearts - empty pockets" scenario — in which the family dimension acts as a stronghold, but the business dimension fails to do so — is not as severe as the "pained hearts - empty pockets'" regarding long term survivability (Sharma, 2004). Still, over longer periods of time, accumulated resources are likely to deplete, causing stress in family relationships, which might change the business' reality from the former to the latter quadrant. Ultimately, this can be translated into the notion that despite the unequivocal influence of its members, the family firm is also guided by economic principles and rules that dictate failure or success in other types of businesses. The question whether they are more prone to economic success or not has not been assertively answered yet.

2.1.3. Anachronistic or Contemporary

In the 20th century, the frenzy around specialized management reached the point in which several writers have proposed that the appropriate solution to the "contamination" of the irrational governance structure was to bring nonfamily managers into the organization and restrict the status of the family to that of outside investors in order for it to survive in the long run (Davis, 1983). Hence, it was believed

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that the idea of a family managed business was anachronistic, out of sync with a fast-paced and ever-changing world.

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The idea of management professionalization has been commonly accepted as beneficial in the light of the pragmatic knowledge it can add into a management role — for example, market research and financial planning — whose family managers might lack (Dyer, 1989). Though partially true, since it is indeed believed that FBs' performance is diminished by undermining management practices, the opposite also happens: non-related firms damage their performance by not developing tacit knowledge that family members usually transfer to their heirs very early in their lives (Sirmon and Hitt, 2003). Thus, as professional managers do not develop such idiosyncratic skills and practices which allowed the organization to grow in the first place, the question regarding whether an individual that has no specific expertise in any particular industry or technology can step into an unfamiliar company and run it successfully through strict application of financial controls, portfolio concepts, and a market-driven strategy might be raised (Hayes and Abernathy, 2007). Further, as manager's answer towards profitability is the strict short-term efficiency philosophy, they fail to take into account the long-run strategy view, a phenomenon called “Competitive Myopia” (Davis, 1983; Hayes and Abernathy, 2007).

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Concerning what has been said during the last paragraph, preserving shareholders' interests throughout short-term maximization is now considered by some authors to be an outdated approach for future value creation (Grant, 2010). Thus, regardless of their potential lack of proficiency and technical knowledge, FBs strong degree of intentionality — a commitment and willingness to work for the well-being of the company, manifested as individual pride, family pride and family tradition (Davis, 1983) — preserved the model in mainstream economy. To prove such willingness to perpetuate the firm, Ward (2016) undertook a survey about the reasons why FB's members wanted to maintain their businesses within the family. The surveyor inferred that 34% of the respondents have chosen "to pass this opportunity to their children" as their primary answer, whereas only 10% decided that the main reason was the financial advantages managing an enterprise could bring. Ultimately, Davis (1983) proposed the professionalization of its own members as a possible solution for the dilemma so that a high-achievement system could be reached.

As previously observed, there is little doubt that insofar as the literature is concerned, FBs are quantitatively contemporary since they still constitute the major part of the economy. Still, when the qualitative approach is undertaken, skepticism comes to light. One of the reasons is justified by the fact that pieces of evidence are contradictory, depending very much on the definition the scholar adopted and the sample under study. Olson et al. (2003), used the data from the 1997 National Family Business Survey (1997) — whose information was acquired through household interviews — to conclude that each additional family member employed by the business was associated with 0.2% additional revenue annually, over 100 times more annual revenue than an additional unrelated employee. Conversely, Miller et al. (2007) evaluated only public companies (in which the clear majority were in the Fortune 1000 list) and concluded that the lone founder firm is indeed more efficient than other types of FBs.

One more factor is decisive to family business success in the present day: location. The protectionism through tariffs, regulations and political incentives takes an important role in the dominance of the model in developing countries. Combined with the lack of efficiency of the capital market compared to developed regions, there is room for growth and for establishing strategies that are harder to adopt in the efficient world such as to diversify (Lethbridge, 1997).

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2.2. Diversification Strategy

2.2.1. Definitions of Diversification

The diversification strategy has always been a controversial discipline both within the literature and among businesspeople. It was once believed to be the ultimate step towards competitive advantage. Lost its ubiquitous presence in the past decades, but has gained some enthusiastic defenders under the synergy motto (Porter, 2008). Still, it is debatable whether this approach enhances or diminishes performance (Goold and Luchs, 1993).

Firstly, one should understand what is meant by diversifying and when this definition was proposed. During the golden years of conglomerates — between the '50s and the '70s — the diversification strategy was majorly unrelated and highly well-regarded by both managers and the market. To prove that point, Matsusaka (1993) found out that the market reacted positively when an unrelated acquisition — one of the ways companies commonly use to diversify their assets — was taken place. Apart from the eagerness for growth, these conglomerates were formed as a response to the strict antitrust policy established in the '60s, which made related acquisitions almost infeasible (Shleifer and Vishny, 1991). Nevertheless, just a decade later, a sum of an unstable environment due to the energy crisis, the increasing international competition (Magaziner and Patkin, 1989), and unsatisfying returns on capital from conglomerates (Ravenscraft and Scherer, 1987) shaped market behavior. Thenceforth, investors ceased to believe that companies could allocate their resources better than the market (Williamson, 1975). The result was both the market and shareholders starting to value related diversification — which could enrich current business practices — but undermining hitherto popular unrelated ventures and portfolio management techniques (Goold and Luchs, 1993).

Regarding what has been said, it comes as no surprise that the features of each definition changed throughout the decades. For instance, Ansoff (1957) defended diversification was a combined effort to sell different products in different markets, and Gort (1962) supported this idea by defining diversification regarding the "heterogeneity of output" of a product based on the number of markets it served. It is worthwhile to mention that these are embryonic definitions that did not take into consideration synergetic effects and influences besides demand substitutability.

Later, some authors defined diversification as an increase in the number of industries in which firms are active (Berry, 1971; Kamien and Schwartz, 1975; Porter, 2008), hence emphasizing not only demand-centered effects but also supply forces (Grant, 2010). Pitts and Hopkins (1982), on the other hand, defended diversification to be among different businesses which need "different production facilities and separate distribution channels," thus allowing a greater degree of subjectivity to the measurement of this type of strategy.

Further insights were later applied into the diversification definition, such as the need for growth (Booz, Allen and Hamilton, 1985; Das and Mohanty, 1981; Reed and Luffman, 1984) and its methods, in which internal development and acquisitions strategies are included (Booz, Allen and Hamilton, 1985). These interpretations only contemplate the core requirements for a diversification strategy. Hence, the reasons why to diversify will be scrutinized later.

For this thesis, diversification is defined as the entry of a firm into new industries, either by processes of internal business development or acquisition. This interpretation is congruent with Porter's corporate view on strategy (2008) and with potential advantages regarding this business approach, such as risk reduction, synergy effects and economies of scale.

2.2.2. Managing Risk

As previously pointed out, between the '50s and the '70, the markets did react well when an unrelated acquisition was announced, which most certainly helped to increase the conglomerate frenzy throughout the period (Matsusaka, 1993). Still, such a behavior was not a lone phenomenon. It followed the mainstream single-manager

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theory, in which providing there were capable and technical workers at the *lower levels* of the administration chain, *conceptual skilled* managers were believed to be able to shift with great ease from one industry to another, with no apparent loss in effectiveness (Katz, 1974). That has commonly been assumed as an excellent way to avoid the issue of handling multiple industries simultaneously and, furthermore, made conglomerates being accused of being too powerful and even anti-competitive (Goold and Luchs, 1993).

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Successful examples of unrelated portfolio management techniques came from the tobacco and oil industries. After a period of major descents in sales and profitability during the '70s due to low oil prices and lung cancer awareness, the main players started diversifying into unrelated fields with the purpose of creating value for shareholders (Levy and Kolk, 2002; Beneish et al., 2008). These cases were, however, believed to be exceptions, since their results were a reflex of an underlying need to change their corporate strategy (Reed and Luffman, 1984) induced by a change in the general environment (Ramanujam and Varadarajan, 1989).

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Nonetheless, the unexpected low-profit results throughout the '70s boosted the specialization countermovement as a reaction to the single-manager theory. Even though this idea was not new — In 1957, Arbuckle had previously labeled the diversified manager as a *factotum* — it was in the '70s that it began to spread widely amongst academics. This view was, moreover, highly defended by Abernathy (1980), who claimed gigantic corporations were being run by *pseudo-professionals* lacking in-depth experience in their fields. Moreover, Porter (1996) argued that if the same set of activities were best to produce all varieties, meet all needs and access all customers, companies could easily shift among them and operational effectiveness would determine performance. Further, empirical evidence showed that managers rather than shareholders were benefitting from the growth of the firm by expanding their range of resources (Mueller, 1972) and entrenching themselves in the company (Shleifer and Vishny, 1991). This also built up to the belief that firms that were diversifying the most were the ones with more agency problems. Such a phenomenon was very common on cash-flow rich companies in stagnating industries, wherein managers were not prone to 'waste' high cash-flows as dividends, efficiency notwithstanding (Jensen, 1986). The overall result of such a practice was a *profitless growth* decade (Hall, 1978) — a phenomenon that affected even General Electric, the world's most diversified company in 1971 — which jeopardized the single-management theory as a positive incentive to diversify

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The disenchantment around diversification was so intense that even the risk-aversion philosophy, formerly one of the most cherished motives to diversify on the grounds that significantly reduces the chance of a major debacle (Booz, Allen and Hamilton, 1985; Das and Mohanty, 1981; Reed and Luffman, 1984), was greatly criticized throughout the specialization era. It was believed to be deeply attached to the single-manager issue because whereas professional managers cherished diversification ventures to decrease their level of uncertainty (Amihud and Lev, 1981), shareholders were paying higher prices for something they could do more cheaply themselves (Porter, 1989).

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In fact, all these vicissitudes contributed to a major wave of dissolutions that affected half of the unrelated conglomerate's acquisitions (Porter, 1989). Not surprisingly, the former notion of diversification strategy did not sound like a valuable corporate strategy any longer and gave room to the belief on synergetic effects.

2.2.3. More than a Sum

After the overall failure of the unrelated acquisitions decade and a change in the antitrust environment, unrelated conglomerates dissolved, preserving only their core businesses., whereas dispensable units were sold or hostilely acquired by mostly related companies (Shleifer and Vishny, 1991). Still, it would be erroneous to assume that the diversification strategy had simply died out. Instead, it has been shaping thenceforth into more intricate schemes under the synergy motto (Goold and Luchs, 1993).

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The synergy effect is commonly accepted in the literature as potential cost savings arising from economies of scale or scope that can be exploited (Besanko, Dranove and

Shanley, 2000) in a way that they are worth more than on a stand-alone basis (Ansoff, 1965). For such an effect, both tangible and intangible assets could be potentially shared between value chains within independent business units (Porter, 2008). Such a definition certainly helps to answer why related diversification can increase value to a corporation, but raises a fair amount of questions as for how and if it can be done.

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The issue lays on the grounds that, even though the overwhelming majority of academics believe that synergy is compulsory for a diversified firm to work altogether (Porter, 2008; Goold and Luchs, 1993; Reed and Luffman, 1984), it is a too broad of a term, thus being hard to identify and, consequently, to apply. Moreover, the very first approaches towards synergy were remarkably unsuccessful, and it mirrors what has been the most concerning aspect regarding related diversification: the imagined synergy. According to Porter (1989), this apparent but not real synergetic effect is not useful since it comes either from insignificant activities in the eyes of the firm or fictitious links that are not truly genuine and does not increase the value of the business. In fact, when related diversification strategies result in internal transaction costs outweighing economies of scale or scope, a *dissynergetic* phenomenon might happen, in which the company not only does not gain competitive advantage but also loses efficiency (Jones & Hill, 1988).

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Porter (2008), one of the biggest researchers on effects of synergies on enterprises, emphasized that the advent of new technologies is easing the issue since it is creating interrelationships as well as reducing the costs of exploiting them. This is a possible explanation for the fact that, nowadays, there is a resurge in diversification among the world's leading firms, such as Alphabet, Facebook, Apple and Microsoft. As the author explains in a later work (1989), such breakthroughs are fundamental to fulfill the better-off test, one of his three criteria for the diversification strategy to be worthwhile, which consists of a unit gaining competitive advantage from its link with the corporation or vice versa. Nonetheless, the author also defends that synergy is usually perceived in a misleading manner, which makes it impossible for companies to create real interrelationships, developments notwithstanding. Firms, he believes, focus their synergy appliances on the transference of skills and expertise, but neglect the more easily achieved tangible relationships that can be generated in essentially any supply chain activity and are less ephemeral. This not to say that intangible relationships are to be forsaken. As a matter of fact, Prahalad and Hamel (1990) criticize the mere tangible sharing approach and underline that core competencies must be nurtured and allocated across business units so to enhance long-term performance, which leads us to believe that a combination of both is needed.

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Conversely, if most benefits of the diversification strategy arise from synergies and unrelated integration does not make any units more profitable (Teece, 1982; Goold and Luchs, 1993; Grant, 2010) it is worthwhile to examine why do businesses still diversify in unrelated fields and why some of them succeed.

2.2.4. The Business Group Phenomenon

During the last chapter, much has been debated about the anachronistic role of conglomerates and the inefficiencies attached to the model. Yet, there are still a vast amount of successful diversified companies worldwide which do not forcefully adopt relatedness to heart. These enterprises have unique denominations in their homelands – they might be called *chaebols*, *keiretsus*, business houses or *grupos* – and even though they operate on utterly unfamiliar environments, they share a common international definition: all of them are Business Groups (BG).

What are BGs and why they matter? Khanna (2001: p.47) defines them as "a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action". Consequently, though they publish their own financial statements and have their own board of directors, firms inside a BG are *de facto* controlled by the same group, which inherently implies a long-term alliance (Granovetter, 2010). This definition contrasts with firms linked by short-term contracts and conglomerates, which are consolidated by a single entity. Moreover, BGs are usually associated with a single extended family (Khanna and Rivkin, 2001) which operate in multiple and often unrelated industries (Khanna and Yafeh, 2007).

The previous description does not capture, however, the contrasts between BG and conglomerates that could make the former relevant in the eyes of researches. Operating individually to, say, capture tax incentives or avoid bearing the costs of tort liability lodged against a subsidiary (Bethel and Liebeskind, 1998) is not by itself a successful model, but a form of legal organization. Further, the success of these groups must be linked with alternative explanations, such as their environment and societal structure (Granovetter, 2010).

Strachan (1976) believes that such idiosyncrasies lies on the personal and operational ties among all the firms in a BG, which are usually bound together by the same family and/or stakeholders with shared values (Khanna and Yafeh, 2007), whereas conglomerates, though under the same organization, act more selfishly due to lack of familiarity. Further, transaction costs can be minimized vis-à-vis a simple corporation (Chung, 2000).

Such divergence raises, however, a fair amount of questions by itself: where are BG relevant and in what context is it believed to be a profitable way of managing a company? As it turns out, the main answers provided by the literature, such as market failures (Khanna and Palepu, 1997) and entry barriers within a *selected environment* (Kock and Guillén, 2000) are usually found in Emerging Markets (EM), a topic which links the core two concepts of the present work: Diversification and FB.

2.3. Diversification and Family Business

2.3.1. Breeding Grounds

As it has been exposed, the factors for the diversification strategy's success have been remolded, thus making previous practices outdated in short period of time. Among minor issues, the greatest reason for such a rapid upturn is the development of worldwide capital markets, therefore raising competition standards and efficiency levels (Grant, 2010).

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Still, this is not an inescapable phenomenon. As some authors have observed, several emerging markets have not reached the productivity frontier yet and are dictated by forces that are not as impactful in the developed world (Granovetter, 1995; Khanna and Palepu, 1997, 1999, 2005, 2006; Kim, Kandemir and Cavusgil, 2004; Prahalad and Lieberthal, 2003). Their economies are more coordinated than advanced countries' (Boschma and Capone, 2015; Miller, Kim and Holmes, 2015) and one must assume that market transactions are more dependent on the firm mechanism than in developed economies (Granovetter, 1995). Consequently, the structure of a firm under these conditions should be adapted to balance the nuances (Prahalad and Lieberthal, 2003).

Consider the involvement of the government in business decisions. Government-imposed tariffs and regulations are drivers that wield power over organizations and thus create incentives to foster relationships between both parts (Khanna and Palepu, 1997). A third party might, as a result, be unwilling to overcome the barriers to entry powered by a bureaucratic system that was built to benefit a few officials and businessman. Thus, it comes as no surprise the existence of huge BGs as dominant players in emerging markets, such as the *chaebols* in South Korea, being Samsung the most notorious example, and the business houses in India, where Tata Group claims the pinnacle (Khanna and Palepu, 1999).

Conversely, saying that competitive advantage is only built around unfair relationships is an understatement, since even the biggest BGs must have started without great benefits achieved through influence. Emergent markets are idiosyncratic in the way that they suffer from *institutional voids* which multinationals cannot deal with effectively (Khanna and Palepu, 1997; 2005; 2006). The absence of *soft infrastructure* is observable in many areas: product markets databases are embryonic and inconclusive; managerial talents are hard to spot since labor markets have professional scarcity; capital markets suffer from lack of intermediate credit-rating and investment agencies, thus generating information asymmetry and making it harder to raise debt or equity (Khanna and Palepu, 2005). The consequences are usually high-costs to develop a credible brand image, overall low-quality employees

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that are hard to lay off and inefficient corporate capital market structure (Khanna and Palepu, 1997).

The issues for foreigners arise, argued Prahalad and Lieberthal (2003), not due to these peculiarities by themselves, but because multinationals enter these markets with an *imperialistic mindset*. Further, while they fall into the Goliath trap by believing their supremacy is nothing but natural — since EM will eventually converge towards the developed world's status — well-adapted dwellers deal with the abovementioned imperfections faster (Bhattacharya and Michael, 2008). They know their consumers better than outsiders, and take advantage of low-cost labor to train staff in-house; have easier access to capital by using their networks of contacts and might deal with distribution and political disruptions with much more ease. Hence, an institutional context is needed and, if absent, locals will thrive whilst foreign competition will be stuck with serving global tier *superpremium niches* instead of local needs (Khanna and Palepu, 2006).

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Curiously, most of emergent market's BGs and conglomerates are family-controlled (Kim et al. 2004) and believed to be backbones of their economies (Andrade et al., 2001). Even though one might understand why the diversification strategy has been thriving on the grounds of image-building, lack of infrastructures and market regulations, no answer has been given so far regarding why FBs are the ones to prosper the most.

2.3.2. A Matter of Familiarity

As previously analyzed, FBs exist on the boundaries of two diverging institutions: the family and the firm. Previous research stated that this format has failed to provide a competitive advantage in developed markets and ultimately hurts business' performance (Bennedsen et. al., 2007). Alternative results were given mostly to lone founders or first-generation enterprises, — where family involvement is almost absent (Miller et al., 2007) — which suggests that the deeper the web of family ties, the more the inefficiencies described by Lansberg (1983) will lead the firm to underperform vis-à-vis its competitors.

Nonetheless, FB results in EM differ from those in developed countries. Furthermore, one must assume that either the family structure has less negative effects on underdeveloped markets or positive effects that do not exist in more mature economies. The answer provided by Leff (1978) was that BGs are formed as "microeconomic responses" to the abovementioned market failure conditions. As such, these groups fulfill the institutional voids left by a poorly developed environment (Khanna and Palepu, 1997) and profit by exploiting its scarce resources (Khanna and Rivkin, 2001). Granovetter (2010), on the other hand, believes such an analysis is too simplistic to contemplate such a broad phenomenon. The author claims no answer has been given to the questions: why BGs, usually controlled by a single family, are the ones able to fulfill the void? What do they have that other companies lack? And why does it matter in underdeveloped markets, but not so much in mature economies?

If a firm is to prosper within a competitive environment, it must maintain an advantage. To do so, unique and irreplaceable resources are necessary, otherwise it will eventually struggle to keep profits above marginal costs (Penrose, 1959; Barney, 1991). Such a resource-based view of the firm has thrived over the last decades, and might explain why FBs are able to grow in specific environments.

Family members are much more altruistic with each other than non-related shareholders (Becker, 1981). This reality raises relevant issues. For instance, regarding human capital, FBs tend to hire suboptimal employees to help members in need (Lansberg, 1983) and do not value management skills as other companies do (Fiegner et. al., 1996). Such vicissitudes undermine the firm's capacity in a traditional efficient capital market, but the macro vision is blurred when alternative economies are put into perspective. This happens because, firstly, inside non-efficient markets, such overlapping decisions do not hurt profitability as much as in the former example and, secondly, the relationships of trust in an unpredictable environment matters much more than on those in which the future is foreseeable. Ultimately, FBs end up enhancing distinctive competences which assist them to flourish.

Such specific capabilities are described by Habbershon and Williams (1999) as *familiness*, which essentially express the unique bundle of resources created by the interaction of family and business. Dreux (1990) underlines that as families do not have to respond to inappropriate short-term goals imposed by the capital markets, they are able to sustain resources aimed for the long-run. Despite being useful in hypercompetitive markets, this patient capital is more strategically convenient on volatile environments, where expected returns might be jeopardized by political, economic and currency risks. Furthermore, in poor economic times, members are much more committed to use their personal resources as survivability capital than nonrelated investors due to emotional ties with the firm, which proves to be valuable when the company is small or access to external capital is precarious (Sirmon and Hitt, 2003).

Besides the financial reasons, there is a role within a society to explain how FBs thrive on EMs. In one of Adam Smith's (1853, p.16) famous passages, the author vehemently defended that people are inherently selfish in their market transactions by claiming that "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." Today, researchers have found out that such a statement is flawed, since altruism is much more relevant in economic life than its commonly understood (Becker, 1981). Not surprisingly, it is not but commonsensical to assume that altruistic behavior will be, as previously analyzed, more common within family firms. But what is the role of one's specific culture in that regard?

Hofstede (1980), for example, concluded that EMs are far more collectivist than the ones in the developed world, meaning FBs' decision-making will focus on the well-being of the group instead of the self. What is more, a collectivist culture is more prone to nurture principal-steward relationships than an individualistic one, inasmuch as managers and shareholder share these same values (Davis, Schoorman and Donaldson, 1997). Where people are culturally more prone to expect their relatives or members of a particular group to look after them in exchange for unquestioned loyalty, identity will be based on a social network and, thus, less formal interactions

(Hofstede, 1991). Andrade et al. (2001) defended that such centralized and informal structure means low-management turnover, which will increase the response to eventual turmoil, not rare in EMs. Additionally, the high degree of intentionality (Davis, 1983) combined with the loyalty of workers to the family and to the founder, who is portrayed as having strong personal ties with employees (Schein, 1983), helps the family firm to be embraced into the community and create a well-established image of its own. With an unfaltering image, the family firm gains leverage to build long-term alliances with trustable partners, which are used to overcome market limitations and further develop this cycle of confidence (Coase, 1937), which, in an unstable environment, is far more relevant than in a predictable atmosphere.

It is this principle of developing an image that allows the family enterprise to expand itself by using its name as a power-tool for entering new markets. These are distinctive capabilities that allow the family firm to find opportunities that competitors might not be able to achieve, such as entering new underdeveloped industries through the diversification strategy.

2.3.3. Potential Diversification

Family firms in EMs usually diversify (Hikino, 1994; Khanna and Palepu, 1997; Kock and Guillén, 2000; Lethbridge, 1997; Kim, Kandemir and Cavusgil, 2004). It is an idiosyncratic phenomenon deeply related with the nature of late-industrialized countries and sometimes misperceived by foreign competition (Prahalad and Lieberthal, 2003). Further, such peculiarities have a structural basis interconnected with the emergent environment and family roots.

From the very start, there is no family firm. Instead, there is usually a single founder who responds to a market opportunity with limited resources and struggles to build up his business through experience and hard-work (Davis, 1968). This introduction stage of a FB explains, to a large degree, the personal ties between the founder and his employees, providing there is a significant amount of interaction between both parties (Schein, 1983): a phenomenon described by Biggart (1990) as institutionalized patrimonialism. These interconnections are evident examples of contact capabilities, which may not sound as influential at a first glance, but are, in fact, the first step of a BG development stage (Kock and Guillén, 2000). It gives the small firm an edge to compete against bigger and more efficient enterprises through a network of contacts, and the foundations to develop diversification ventures by using its well-perceived brand within the community.

The aforesaid diversification approach is not synergetic as one would assume, but mainly unrelated, at least during this initial phase. The reasoning is quite straightforward. The family firm has no product-related competitive advantage, but might, instead, benefit from economies of scope acquired from contact capabilities (Teece,1982). Thence, the enterprise is able to build a new venture more cheaply than a sole competitor would by, say, having easy access to capital, a competitive edge that can be exploited several times. Conversely, this is challenging to replicate for those who don't have it, thus increasing their general and transaction costs (Kock and Guillén, 2000).

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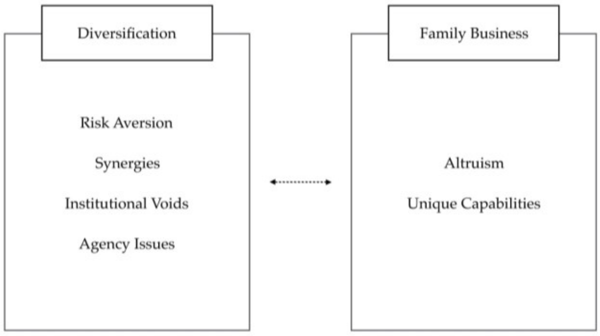
As the company expands and competition increases, however, contact capabilities alone are not enough to foment growth. Hence, it loses ground to a new set of firm expertise replacing individual-oriented competencies. Hikino (1994) named it *generic skills*, whereas Khanna and Palepu (1997) used the term *capabilities* to describe the same phenomenon: a whole new package of skillsets is needed to trigger a growth pattern in imperfect markets. This transition marks the development towards the second stage of Kock and Guillén's (2000) BG development. Through this process, unrelated diversification is still greatly employed to, say, develop internal capital markets in order to deal with poor local institutions (Khanna and Palepu, 1997) or to start greenfield endeavors as an early-mover reaction to entrepreneurial scarcity (Ghemawat and Khanna, 1998). Relatedness, however, also gains some room and becomes increasingly ambitioned. The development of economies of scale, which implies interconnections among units, and the necessity of more specialized labor-market to overcome a short supply of technical workers, compel the enterprise to coordinate its activities so to increase productivity levels and to cope with the downsides of being operating in an emergent market.

Eventually, if the firm is successful, it will mature and might be obliged to cross the boundaries of the protectionist borders so to compete against international players abroad. Most likely, during this period the founder has already passed the leadership to one of his heirs or trusted managers. Regardless, a high level of managerial proficiency is expected (Kim et al. 2004). In this context, contact advantages are essentially obsolete and organizational and technological predominance are unveiled as the main sources of competitive advantage (Kock and Guillén, 2000). This premise follows suit with Arikan and Stulz (2016) analysis. Using neoclassical theory, the authors concluded that markets react well to unrelated acquisition on young firms, but do the opposite when the buyout is performed by a mature business with high cash holdings, which are believed to be detrimental and associated with agency issues. On the other hand, markets do approve related acquisitions in the latter situation due to synergy potentialities.

A last concern about the diversification strategy regards risk. Porter (1989) criticized the redundancy around diversifying for the shareholder, but when the shareholder and the manager are virtually the same, no agency issues exist. Thus, in private companies, portfolio management might, indeed, reduce the unsystematic risk (Grant, 2010). Consequently, unrelated diversification strategy can be advantageous under these circumstances, in clear opposition to what has been said in the literature regarding the synergy-only motto.

2.4. Literature Review's framework

In order to connect the concepts to the main research question — Why do FB diversify? — a model was built to present the factors that have, according to literature, a determining role to provide an answer. On the left side, popular academic motivations towards diversification are stated, which explain mainly market-driven incentives that lead the company to adopt the strategy. The second box refers to FB motives to diversify. Hence, it is expected that concepts under this key definition will vary more from company to company, since the objectives of families are more endemic than those of the firm.



Framework 1: A priori theoretical framework

Chapter 3
Methodology

Having reviewed the underlying theory so the topic could be propitiously explored, the third chapter scrutinizes the research strategy adopted for the present study. It is divided in three subchapters: the reasons behind the methodological choice, a brief analysis of the case study research and the processes used in the current investigation.

3.1. Methodological Choice

Since the diversification and FB phenomena are contemporary and observable, we had to choose a method in which these nuances were appreciated. Plus, understanding FB relationships are highly contextual, challenging the author to find a methodological process in which a great amount of information sources can be processed and, most importantly, analyzed together so to provide internal validity. The case study method was, consequently, chosen.

In fact, case studies have been the most used qualitative methodology in FB research to date (De Massis et. al., 2012), since they can be used rigorously and creatively to deal with manifold variables of interest (Massis and Kotlar, 2014). More specifically, the explanatory approach is to be applied, regarding that our aim is to understand why the diversification phenomenon happens inside a FB. Furthermore, some exploratory work has also been done so to figure out the sociological implication of diversifying on family ties. Hence, case study research appears to be a suitable research strategy to answer our key research question: How diversification influences family businesses?

3.2. Case Study Research

Case Study is a research strategy that focuses on a contemporary phenomenon within a real-life context, to retain the holistic and meaningful characteristics of the events (Yin, 2009). For such an *raison d'être*, direct observation, interviews and document analysis are noteworthy tools which can be used to deal with a variety of evidence.

Historically, the Case Study has been widely accepted for evaluation purposes. Nevertheless, its applicability as a research approach on its own right is very much recent and debatable (Simons, 1996). Precisely for its wide range of application and holistic analysis, this method has been condemned for overgeneralizing while lacking sound hard evidence (Flyvbjerg, 2006). The usual criticism regards the empirical limitations of a single case, being multiple cases needed for a pattern to be found, and the subjectivity of the researcher's interpretation. Conclusively, one case would not be enough to provide reliable information about the broader class.

Nevertheless, Flyvbjerg (2006) believes such statements are misconceptions. The author claims that the Case Study is indeed useful for generalizing on the grounds that a well-chosen case might reveal information that a collection of data analysis cannot. Simons (1996) defends that the tacit forms of knowing can be appealing to capture nuances that formalistic generalization is not able to. Moreover, the unorthodox structure will give the researcher more freedom to examine the "instance in action", which will ultimately lead to the goal of generalization (MacDonald and Walker, 1975).

Replication, on the other hand, is essential. But this assumption does not jeopardize the Case Study validity. After all, "has any single experiment been assertively generalized without further replication?" (Yin, 2009, p. 15). Yin explains that the role of the method is not to assume a new theory has been built and approved instantaneously. Instead, it is to expand and generalize theories, which contrasts with the narrower method of enumerating frequencies. This process, Yin proceeds, is called analytic generalization and is done by using previously developed theory as a template to compare with the empirical results of the case. Thenceforth, the author should understand the specific real-life phenomenon in-depth, encompass important contextual idiosyncratic conditions and only then provide answers and/or questions for future research.

3.3. Present Research

In this study, we attempt to broaden and refine the extant theory in the areas of diversification and FB by addressing the following explanatory research question:

Why do family businesses diversify?

As, most often, the explanatory nature of a Case Study is combined with its exploratory aim (Massis and Kotlar, 2014), we propose a second research question, whose purpose lays on understanding how the dynamics of a diversified structure affects the family ties within the firm:

How does the diversification strategy affects the family ties and firm's performance?

These are, undoubtedly, interconnected subjects and, surely, leave room to a fair amount of points of view. Thus, the influence of the literature review is paramount. By analyzing past studies on the subject, the author can find previously-disclosed patterns to generalize past theories. In addition, the author can find gaps in research to propose new propositions for later studies under the replication logic (Yin, 2009).

Having said that, we believe that our explanatory approach can benefit the current state of the art by providing an in-depth analysis of a contemporary case which, we concluded, gave responses that have not been thoroughly studied yet, thus opening doors for possible alternative interpretations.

We are aware, however, that internal validity might be an issue and must consequently be the first crucial goal. Furthermore, causal relationships and inferences were dealt with very carefully by the use of information triangulation.

3.3.1. Data

For a better understanding of how the diversified FB works altogether, Grupo Rocha, a medium-sized privately-owned Brazilian family company was analyzed throughout the time of research. Hence, this is a representative single case study, which, according to Yin (2009), is useful to determine whether theory's propositions are correct or whether some alternative set of explanations might be more relevant.

Since the entire nature of the organization is examined and not specific subunits, the present work is holistic in its essence (Yin, 2009). For such an effect, information was gathered by multiple sources which, in agreement with Yin's view, is one of the key strengths of this research blueprint so to converge lines of inquiry and, what is more, increase the case's reliability.

As FB is one of the key concepts, direct observation was one of the chosen sources of evidence. Although time-consuming and selective, since all events cannot be possibly observed simultaneously, it has proven itself a useful tool. The dynamics of the family are not easy to capture in documents or archives and, even though some insights were recorded in interviews, the direct observation acted as a less biased complement to this set of data.

Secondly, the author met with some leading personalities inside the family. Mr. António Rocha, Mr. Tony and Mrs. Vânia were formally interviewed, whereas other family members were informally approached, though knowing that their contribution might be quoted in the present work. To complement the observation on the family's dynamic, a manuscript of Mr. Rocha's biography was analyzed so to acute the researcher's appreciation on the subject.

Regarding the effects of diversification strategy on the FB, documents were by far the best source of information. Income statements, ground floor plants, balance sheets and salary sheets were appreciated during the research process. Unfortunately, since formal accrual accounting is relatively new in the company, financial historical data is very much limited by the lack of information available.

Chapter 4
The Case and Discussion of Evidence

To give a proper understanding of how and why the company has appeared, grown and become the foundation for a full-grown diversified FB, it is indeed imperative to comprehend its roots. As asserted in the Methodology, this case is relevant due to its singularity within an EM environment. Thus, there is no better start than the beginning.

4.1. Grupo Rocha

Grupo Rocha did not start as a BG. Originally, it began with a single lone-founder, António Duarte da Rocha, who emigrated from his hometown in Portugal to Rio de Janeiro in 1935.

As many families, António's had suffered from the political instability that marked the transition between the Republican Regime (1910-1926), which was forcefully ended by a military coup, and the ascension of António Salazar as a prime minister in 1932. It is worth mentioning that both the agricultural and the industrial sectors were growing consistently in the Portuguese economy, the real income had increased and inflation was much more stable than during the World War I (Lains, 2003). Still, Portugal was notoriously behind the main players in Europe and had a devalued currency. Brazil, on the other hand, which was experiencing a steady-growing decade, averaging almost 5% of annual growth during the 30s (according to the Brazilian Bureau of Statistics, 2012), was much more appealing to the 24-year-old villager. The country was undergoing fundamental changes within its political spectrum, which ultimately increased levels of industrialization and investments in infrastructures (Cano, 2012) and had been for a few decades a common desirable destination for many Portuguese-speakers. All of which goes to show that António's decision to go to Rio de Janeiro was not a lone phenomenon whatsoever. Instead, these immigrations flows would not cease until the late 50s, meaning that the Portuguese community was remarkably prodigious in the city, which would ultimately affect António's life.

Once arrived and secured by a fellow countryman living in Manaus (as required throughout a letter of guarantee), António started working as a waiter in various Hotels, including the renowned Copacabana Palace, to save some money to send his family as remittances. It would not take long until his entrepreneurial vocation kicked in, drastically changing the environment in which he worked.

4.1.1. Rei das Vitaminas

The year after his arrival, and had gathered some resources, Mr. Rocha decided to open a small business of his own inside "Central do Brasil," a well-known and extremely crowded train station inside the very heart of the city, and the only common stop for all railway lines. His strategy was to rent a small kiosk and sell affordable juices rich in vitamins — which consisted on a third of melon, half an apple, and half a tomato — for low-income buyers that crossed the station on a daily basis. As his venture succeeded, Mr. Rocha used his contact capabilities within the station (Kock and Guillén, 2000) to get licenses to build more kiosks inside it. Furthermore, as the population grew and more room to work was granted to him, Mr. Rocha was able to increase the portfolio of meals available to the same public, a process that Ansoff (1947) would call a product development approach.

During these early years of the lone-founder enterprise, his son, an 18-year-old also named António — to ease the reading process, only the younger António will be called Mr. Rocha throughout the text for now on — was invited by his father to leave his village and to work with him. This was the point in which, for the first time, the business and the firm started to blend through the union of intergenerational members. It is clear that in such an early stage, boundaries between family and business relationships are quite unproblematic, conversely to what might happen when both variables become more complex. In this context, the cooperative work generated value for the enterprise, which maintained itself steady until the end of the "Brazilian Miracle" during the oil shock of 79'.

Commented [RM223]: idem

4.1.2. Second Generation

As his father went back to Portugal in 1964, António-son became the official leader of the still small-sized enterprise. Theoretically, Mr. Rocha was not the lone-founder, but his insights on how to manage his father's businesses made him the undoubtful developer of the ought to be FB Group. During his early-phase as administrator, "Rei das Vitaminas," now called "O Reizinho," began selling cheese pastries and sugarcane juice, typical Brazilian snacks that were to become the company's most sold goods for many decades. Likewise, it had generated enough revenue so that António was able to invest in alternative ventures with irrelative Portuguese partners.

Regardless of his prominent start, the first big crisis arrived at Mr. Rocha's professional life in 1983. In a major transformation inside Central do Brasil, the Secretary of Transports decided that kiosks by the wall should be forbidden for aesthetics purposes. Moreover, and since kiosks' licenses were granted by informal contracts, "O Reizinho" lost its traditional spots and came up with an undignifying and small place, incapable of providing the snacks it once did. A downsizing was mandatory and Mr. Rocha had no choice but to sell hot-dogs for his customers and contract several debts to keep his business alive.

Once again, the contact capabilities first employed by his father proved essential to benefit the owner. In 1984, with an inflation rate flirting with hyperinflation of around 192% a year (figure 1), and a real interest rate surpassing the mark of 20% a year, borrowing from failing financial institutions became too complex. If not by his personal connections within the Portuguese community, who lent Mr. Rocha the money required to overpower the crisis, the chances of a comeback would not be considerable.

Thereafter, António was determined to find a new place for his fast-food chain, and he did find a home on Alfândega street. Commonly known as SAARA (In English, Society of Friends nearby the Alfândega Street), the road was the redoubt of lots of immigrants and the second biggest popular trade spot in the entire country. There, he opened his first "O Reizinho" outside Central do Brasil, which was to become the most symbolic and fruitful asset of the whole group.

4.1.3. Third Generation

Meanwhile, his son, the 18-year-old Jorge Rocha, was about to become his shareholder and co-manager. Regardless of his age, Jorge had a fair amount of expertise concerning how the individual units operated, as he had been exercising various functions since he was 14-years-old and developed tacit knowledge on the field, confirming Sirmon and Hitt's (2003) assumption. Additionally, aiming the growth of the business, Jorge was studying management at college and was held responsible for the Alfândega unit, whereas his father was to sustain the most troubled assets within and without the family feud.

Commented [RM224]: idem

Mr. Rocha's older son's performance during these years was crucial for paying the mounting debts in the utterly unfavorable high-inflation decade, which provided him the title, according to Mr. Rocha, of "the best partner" he has ever worked with. It was also a great incentive to bring his siblings, Vânia and Tony, into the FB atmosphere. Nevertheless, and whilst the firm was recovering from the first great critical period, a new sharp recession arose during the early-90s, widely associated with the impeachment of the president Fernando Collor de Melo. Bank accounts were frozen, inflation spiked to hyperinflation levels and, once again, paying compounding debts was getting troublesome due to the sluggish results of a significant part of the firm's units. It was during this moment of crisis that the second major key word in this work, the diversification strategy, comes to light.

Just besides the Alfândega unit, an open store had been previously bought by Mr. Rocha so he could expand the snack bar into a buffet restaurant. Still, giving there was no capital to the works needed for such a project, Tony, the younger son, who was responsible for buying goods for "O Reizinho," had been chosen to capitalize the place by selling toys bought from a nearby wholesaler. The venture was not profitable, but sustained the bills and taxes of the place. Through the course of the small enterprise, Tony befriended an Argentine businessman who informed him about the craze around the 1.99R$ stores (known in English as dollar stores) in the South of the country. Plus, he accepted to sell the goods himself on consignment, trusting the goodwill of Tony's family and proving, once again, the importance of the family's image and contact capabilities. The store was, thus, filled with products, from pens to pans, and started profiting twelve times more than it previously had. These conspicuous numbers made the family rethink the former restaurant buffet project, and to adapt their strategy so to increase the number of retail stores instead. Tony was, consequently, put in charge of this chain, named "Tudo por 1,99R$" (Everything for a dollar), whereas Jorge kept managing the fast-food chain.

Commented [RM225]: idem

4.1.4. Growth

Amidst the stabilization of the economy and a sudden growth in consumption rates, both businesses were growing, profiting and debtless. The family financed its new ventures with their own capital and developed itself to what Knock and Guillén (2000) referred as the second stage of development of a BG.

Commented [RM226]: idem

Using an early mover advantage as one of the first players in the new discount retail stores model, proving Kim et. al.'s (2004) point that FB generally build their competitive advantage by developing its brand equity ahead of competitors, the group increased its efficiency levels by increasing supply-side economies of scale. As a result, as rivalry was still embryonic and the company developed leverage with its suppliers, it was able to achieve remarkable growth results (Porter, 2008). Thus, the now called *O Amigão* was coming close to match *O Reizinho* in terms of profitability.

Commented [RM227]: idem

Meanwhile, the fast-food industry was maturing. International competitors such as MacDonald's and Burger King were absorbing demand from local players. Regardless of the fierce competition, O Reizinho maintained its prominence in some key strategic places in the outskirts of the city, where population was booming, though rivalry was still very much local. Besides, the very first two company's flagships inside Central do Brasil and on Alfândega Street were not losing ground to outsiders, who preferred to open their businesses in Shopping Centers and medium-to-upper-class neighborhoods.

4.1.5. Disruptions

The worst crisis for the family firm was, nonetheless, just around the corner. This time, however, it was not triggered by business issues, but by a huge disruption inside the very heart of the family.

On November 2002, Jorge, Mr. Rocha's older son, who was already the CEO *de facto* of the group, died in a tragic accident. The family went unbalanced. Mr. Rocha fell into a deep depression. Vânia, who was pregnant, was so overwhelmed by the circumstances that was advised to stay home. If not by the 29-year-old Tony, the younger son, the firm was likely to nosedive, proving the effects that family ties might have on business.

Tony, as he explained, had to bear his brother's duties and led the firm to overcome the major nonnormative disruption, as put by Carsrud and Brannback (2011). According to Mr. Tony, this was by far the most overwhelming period of his career, since he could not even deal with his brother's loss properly and had to address issues he did not know how to handle. He managed to find a new manager for the fast-food chain upon the figure of a close cousin and kept overseeing the retail stores.

Commented [RM228]: idem

The major disruption was about to bring a series of aftershocks. Until that point in time, the family had become familiar with Sharma's (2004) warm hearts and empty pockets quadrant. Nevertheless, issues regarding the new role of Jorge's wife, who inherited her husband's shares, brought upon a whole new set of conflicts inside the family feud. She was no keen of the idea to work within the firm, though Mr. Rocha

Commented [RM229]: idem

did want his grandchildren to keep being attached to the business, which would inexorably keep them attached to the family as well.

Disagreements reached the siblings. Vânia and Tony already had a small history of arguments due to divergent business perspectives and conflicting personalities. They both, too, did believe divergent actions should be undertaken to guarantee their nephews' succession. This pained hearts and deep pockets scenario was entirely new. The result was a culmination of discords which ultimately made they decide that they should split the office in two, so each one would take care of their respective parts.

Commented [RM230]: idem

In the midst of these disagreements, a second diversified business venture was initiated. In a spot Mr. Rocha had previously bought to avoid competition nearby a personal fast-food restaurant external to "Grupo Rocha," Vânia decided start selling children's shoes. As the unit profited, and Mr. Rocha and Tony decided to let her lead the venture, the group bought more sizeable stores and selling children's clothes as well, under the name "Baby & Kids", which concludes the triad in the group's portfolio is currently in.

4.1.6. Current Situation

Nowadays, the group is split in three sections. Tony takes care of O Amigão, Vânia overlooks Baby & Kids and Alex, the previously mentioned cousin, is the head of O Reizinho. Mr. Rocha, now 81 years-old, keeps exercising functions, but more like a councilman and not as a leader *de facto*.

O Amigão is unarguably the cornerstone of the firm. It has grown steadily over the past decade, has been opening bigger stores and upgrading its supply chain. "O Reizinho," on the other hand, has fallen into a downfall since the nonnormative crisis and has been striving to deal with the rivals in its industry. Though most units are still profitable — mainly the ones in Central do Brasil and in Alfândega Street — most recent endeavors had failed or did not compensate the investment undertaken. Lastly, Vânia's project has not grown as expected. Baby & Kids is notoriously behind O Amigão in volume in sales and has suffered greatly from the recent Brazilian recession, which increased the conflict between the two parties.

4.2. Description of each Business

Having described the history of the group, it seems necessary to break down each business strategy individually so to understand the group's decisions on how to diversify. For this purpose, the author decided to start with O Reizinho, the very first family business, and develop from this point a line of thought towards the most recent ventures.

4.2.1. O Reizinho

O Reizinho, formerly known as Rei das Vitaminas, was for many years the only business from Rocha's family. It maintains itself as one of the key focus of the company, even though its profitability has fallen and the gap between its units and Amigão's has widened significantly.

During its early years, Mr. Rocha's father, the official founder, enjoyed a noteworthy push from Rio de Janeiro's booming population. Between the 1940s to the 1960s, it is estimated that the number of people living in the city increased by 87,5% (figure 2) and although no data about Central do Brasil has been found, one would commonsensically assume that the number of people who crossed the station spiked as well.

After the hyperinflation period, and despite the population growth had slowed down, business opportunities increased as the country lived its most stable period on many years, in which consumer prices were less oscillating (figure 1). Furthermore, as the new monetary police worked and the GDP grew consistently throughout the time (figure 3), the population was more prone to consume food outside their houses, and the fast-food was one of the fastest-growing models in the industry.

“The problem”, Mr. Rocha stated, “is that besides the national competition, international players came strong as well. Whenever a MacDonald’s opened, it was a frenzy towards it, and with the franchising model, they expanded themselves by the dozens.” As a result, Jorge Rocha decided to open his newest ventures outside the spotlights, such as by reinforcing contracts with SuperVia, who managed the train stations all over the city, including its peripherals. The chosen locations were very crowded: Cascadura, Duque de Caxias and Campo Grande are worthwhile examples. They are far from the targeted city center, in which the Alfândega Street remains included, but fulfilled with potential customers just waiting for market penetration.

Today, O Reizinho is not living its glory days. The two-years stagflation scenario certainly did not help the cause, but one can doubt if enough has been done. Mr. Rocha himself believes that selling too much products is not a well-adapted strategy in the current days, whereas less-complex competitors operate with far less fixed costs. Nevertheless, Mr. Rocha claims, “our customers expect to find colorful shelfs fulfilled with products. We cannot simply and arbitrarily reduce our offers.”

Alex, O Reizinho’s manager, has already found out a way to increase economies of scale by manufacturing its products in the new-built factory, which also, he explains, “enjoys the advantage of selling products to outsiders”. This is not a process of vertical integration, however, since the pastries were already produced by the group, but separately in each unit. It is, on the other hand, an embryonic demand-size diversification venture, which is not, by the time of the work, significant enough to be more fully explored, though it might be a lead for future growth as a wholesaler.

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Regarding Reizinho’s individual units, they are still enjoying the abundant low-income clients to profit. Still, it has been losing ground. Even though new menus have been printed, room for meals built and modern Outback-style dishes designed, the underlying issue of maturing industry is yet to be solved.

4.2.2. O Amigão

As previously mentioned, O Amigão has grown almost accidentally to become the cornerstone of the group. Rumelt (2011) defends that people are usually concerned about whether luck or skill has been used to achieve success, whereas sometimes the main frame is forgotten: the underlying changes within the economy.

Commented [RM232]: idem

Its success can be highly regarded as a lucky strike. After all, had not Tony started selling its products on the empty unremarkable store, O Amigão would probably never had appeared, or maybe it would, but too late to capture a first-mover advantage. It can also be described as organizational competency. Jorge did skillfully take advantage of the situation by reinvesting the net profit from O Reizinho to open four stores in the very first year, which meant few available room for the well-established fast-food chain (figure 4). In the following years, Tony was indeed able to turn the small business into bigger, more interconnected and resourceful discount retail stores, while most of the small competitors never did. It explains a lot. Nonetheless, it does not explain everything.

Besides changes within the political sphere, the 90's was marked by developments in economic archetypes and consumer behavior. As an example, the once prominent department store model fell short on supplying the customers with the price deals that new chains could. As a result, behemoths in the national landscape such as Mesbla, Sandiz and Mappin went broke, whereas Lojas Americanas, one of the twenty biggest companies during the mid-90's, had to adapt its strategy by closing supermarket ventures and non-profitable units so to react to negative results.

These transformations in the landscape have multiple sources. First, following the end of the hyperinflation period and subsequent economic stabilization, foreign investment levels boomed (Sant Anna, 2017). Not surprisingly, the efficiency levels of foreign multinationals jeopardized the well-stablished players within the retail business. The local chains were not as technologically developed as outsiders while managing stocks, selling products — there were no bar codes — or distributing goods to subsidiaries. Secondly, supermarkets started selling commoditized goods such as stationery products and cheap toys. Consequently, as economies of scale dictates commoditized markets, supermarkets had a clear competitive edge against the department retailers (Rodrigues, 2005). Lastly, the in-store organization of room and employees was outdated. Whilst the new tendency was a common checkout for all customers, most Brazilian retailers still worked with separate counters, thus increasing fixed costs.

In the meanwhile, new businesses appeared. Mass merchandise giants inspired on the ascension of Wal-Mart's interconnected business model arose (Rumelt, 2011). Dollar stores, a pure cost leadership strategy idea, became increasingly popular. As the environment changed, new players kicked in.

O Amigão started its operations in 1997 with a price-oriented strategy. "Even today," Tony explains, "we cannot sell goods at higher prices. We are well-known for giving the best deals and if our clients lose their belief on us, well, then we are out of business." For such an effect, O Amigão had to work with high-levels of inventory in order to buy goods at lower prices. Interestingly, and despite the current low-stock managing philosophy, Tony says that this have not been changing much. "We still work with high-levels of inventories so we can have better contracts and don't end up with empty shelves," Tony claims (figure 5). "2014 was particularly interesting because, due to the recession, we got amazing deals for buying mounting stocks from our distributors. Our stores are crowded with goods, but as long as we sell it, we could not pass the opportunity. I know this is not the standard practice in the industry, but Brazilian accesses to distribution are not as great as European's or North American's. We have to work with what we have got." It is relevant to mention that in-store stocks are almost never on the first floor, but usually on levels in which there is no capacity to build a customer-centric shop.

The changes, however, came on size, products portfolio and performance. The first stores had an average of 130m2 without stock, whereas one of the newest ones has already reached the 1000m2 mark. Most of these are located in crowded streets in low-income neighborhoods. Most recently, in 2015, the brand entered a Shopping Center for the first time, as an anchor store. Though in the peripherals, Parque Shopping Sulacap provided O Amigão the opportunity to test its influence in a different location. "It has been working alright," defends Tony, "but it is yet to match our best stores."

Moreover, O Amigão was, initially, extremely dependent on the products from its main wholesaler. Today it has a great deal of power over its suppliers and works with mass-merchandise, from home items to toys and stationery products. Its logistics were extremely limited, so new software was developed for managers to have more reliable information about sales and productivity levels. "Our next step is a client card, so more information can be gathered about our customers and we can increase sales. But we are not quite there yet," concludes Tony.

4.2.3. Baby & Kids

Unlike O Amigão, Baby & Kids did not appear as a great market opportunity. It was, in fact, also introduced to capitalize an empty store, — which Mr. Rocha had bought to avoid competition. And even though the market is very dynamic, it lacked the momentum to capture its own meaningful share.

The issue lays on several grounds. First, the firm had just lost a powerful entrepreneur who essentially planned the steps through the introduction stage of O Amigão's life cycle and the increase of the numbers of stores from O Reizinho. Similarly, Baby & Kids' strategy has not been quite straightforward. It used an Amigão's family logo to capture the clients, but was not a retailer targeting price-sensitive consumers, since it sold both cheap and more expensive clothing. One could argue that it might be stuck in the middle, thus lacking competitive advantage (Porter, 1986).

Commented [RM233]: idem

One advantage that Baby & Kids could have would be exploring synergies with O Amigão, whose business model probably allows some interconnections. It has not been done, though, and non-related-business problems have increased as a result.

4.3. Synergies

In this chapter regarding the description of the case, synergy connections are to be analyzed. The reason for setting aside an entire part for such interconnections can be easily reasoned: synergy has been a great motivator for building relations among members and to motivate new ventures. In short, to keep family members under the same objective.

4.3.1. O Reizinho and O Amigão

There are many differences between O Reizinho and O Amigão. They are from different industries. Their interconnections are limited to basic tangible assets, such as sharing headquarters and, with some adaptations, software. We know, though, that the latter was not created to explore sharing opportunities; It was simply a good idea so to capture a propitious momentum and to create more value to the family. Succinctly, high levels of sharing were not imperative. But as both businesses moved forward under the flagship of two brothers, they tried to make something more than alternative investments.

Since the very first O Amigão, Jorge decided to try to put a small fast-food Reizinho-like chain into the stores. The name they came up was "Amiguinho", and the idea was to sell the Brazilian pastries to Amigão's clients and vice versa. It was not a mistakenly-guided approach. Both businesses sold their products into the same neighborhoods for similar low-income clients. "Sharing the room was sometimes complicated," Tony says, "each one of us wanted more room for what we managed and there were some fights about who would pay what regarding the energy bills (laughs)." As they were able to buy bigger stores, the room issue was being mitigated and a total of eleven units had the Amigão/Amiguinho partnership.

Some years after the disruption, Amiguinhos started closing, and those which remained became O Reizinho. "O Amigão needed the room, it was growing fast. We maintained the four which we believe are big and profitable enough, but the other ones were not favoring the bigger picture, they were actually making us lose efficiency."

Today, besides the remaining units, sharing is restricted to the office bills, software utility and Human Resources activity. Accounting, Marketing and Cash-flow logistics, which were previously divided between both firms, are not anymore. Hence, the growth of the group did not increase cooperation between each individual business, but decreased it. One reason was explicitly defined by Mr. Tony. When asked if they have been thinking on trying new market interrelationships, such as cross-selling, for instance, he replied: "We thought to, but without my brother it does not seem the same."

4.3.2. O Amigão and Baby & Kids

Unlike O Reizinho, Baby & Kids has good potential sharing opportunities with O Amigão. Both are theoretically discount retailers, both operate with durable goods, so transportation costs could be split; Sales-forces expertise is more easily traded and could work together to import goods at the same time to minimize costs and joint procurement regarding services as accounting and legal activities could be divided. No such potentialities are explored, though and, what is more, Baby & Kids is paying high prices for national clothing whereas O Amigão imports almost half of its goods from China, India and Indonesia.

Within a family in which the first two unrelated businesses were tested together so to maximize profit, it is peculiar that so many relatedness opportunities are passing through. There are, in fact, insipient synergies between both parties, but they are not any more meaningful than infrastructure and, more recently, software exploitation. Even the brand under the same "O Amigão" trademark has been more conflicting than useful. Very few advertising ideas have been done together, no cross-selling or shared promotions whatsoever, and the shared image has no real reason but to provide the information that both businesses are from the same group. It comes as no surprise that one must be skeptical if the once valuable family ties have been working recently.

4.4. Current Corporate Strategy and Results

Grupo Rocha's shareholder structure is almost entirely familiar (Table 1). Apart from minor business partners, decision-making is extremely centralized, which helped the company to adapt quickly to fundamental changes during its early days (Andrade, Barra and Elstrodt, 2001). In theory, the informal ties between its members should instigate a shared view of the future of the company (Davis, 1983), but there are reasons to doubt it.

Let us consider the growth of individual units in each business. As the chart demonstrates (Figure 4), whereas O Amigão's curve is unambiguously ascending, O Reizinho's is forming a slightly reversed V-shaped trajectory. Such result should not be surprising. As previously mentioned, the fast-food industry is maturing, whereas the discount retail model is still at its prime. Further, to hold precious assets while closing non-profitable elements sound as a good corporate strategy. Such interpretation is simultaneously accurate and misleading. Whereas Mr. Alex has indeed held the most prominent units to finance further projects, such income was not used to invest on the other two businesses. In fact, it was employed to open new stores for the fast-food chain, which ultimately failed. Hence, the capital market interaction within the BG, allegedly one of the most cherished reasons to stablish the model in the first place, has not been happening. Summarily, they are managed and financed individually, thus raising the question if such behavior is raising value for the company as a whole.

O Amigão and Baby & Kids, on the other hand, have indeed being able to develop closer capital markets synergies, in which the former business has provided the latter with resources to grow and further capitalize itself. Still, as the project started for dubious reasons — a topic which will be explored during the results presentation — its relevance is questionable. For instance, during its most profitable year, Baby & Kids accounted for only 7.1% of the group's gross revenue (figure 6) and 1.03% of the entire net revenue (figure 7). Most recently, as the business weakened due to the recession and O Amigão's profits increased (figure 8), Baby & Kids has fallen so behind the main player that one must question whether maintaining the units is a worthwhile diversification strategy as it does not seem that neither future value creation nor overall risk reduction are targetable objectives.

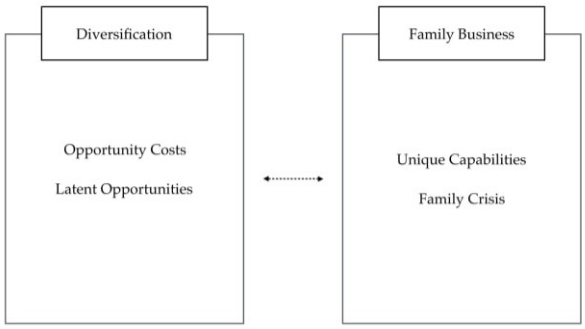
Since family ties used to be paramount for the firm to grow altogether, why have not the members been capable of spotting the misguided behaviors that have been growing through the last decade?

Chapter 5
Further Discussion and Results

This chapter is due to connect the main conclusions from the literature review with the present investigation's result. Thus, with the purpose to answer the methodology questions, the author will compare the patterns between what other academics have already presented and the current case by developing a new theoretical framework. Afterwards, new possible explanations will be proposed so later writers can research on the findings.

5.1. New theoretical framework

During the last chapter, some of the key topics of research were put into the perspective of the current case. To simplify the following steps towards new propositions, the author decided to create an *ex post* framework so to clarify the results of the analysis.



Framework 2: A posteriori theoretical framework

As observable in the new framework, the motivations to diversify found in the case are considerably different from the ones that were previously described. Even the market-driven reasons to adopt the strategy are not the same, which goes against our first judgment — synergies did not trigger a diversification venture, but were later applied.

In fact, the only concept that matches both frameworks is unique capabilities. Nevertheless, we also found out that, in our case, the alternative motivation to diversify that was embodied in the FB was not altruism but, on the contrary, a family crisis. All the new scenarios will be discussed in this chapter, which includes original propositions to the new concepts in the theoretical framework.

5.2. Family Business Evidence

There is no doubt that Grupo Rocha fits in the FB definition. It is both managed and almost fully-owned by family members (Table 1), thus being the dominant coalition in complete control of corporate decisions (Davis, 1983). The firm is already in its third generation and has been, too, planning itself for future succession, being consequently completely absent from the lone founder subgroup (Churchill & Hatten, 1997). Having established these foundations, one can look deeper into the peculiar corners of the FB reality.

Regarding the very first question proposed by Sharma (2004), who asked: "Are family firms different from other business organizations?", our findings support an affirmative answer. Much like Tagiuri and Davis (1996) analysis, the main principals inside Grupo Rocha must deal with the owner/manager/family member trilemma. Since Mr. Rocha, Vânia and Tony exercise all these roles, decision-making can be complicated.

Let us recall, for instance, Lansberg's (1983) problems of selection, in which he defends that family principles demand the owner to help members in need, regardless of their competence. Inside O Amigão's headquarters, 12% of all employees (table 2) are family-members. In contrast, four of these six are currently in managing positions, which ultimately imply that 57% of decisive roles are within the hands of the clan (figures 9 and 10). Curiously, only within the sectors where no kinship whatsoever is there a non-related administrator.

Such facts do not come as criticisms, though. Indeed, it is believed that FB usually seek to keep the firm's ownership and control in the hands of its members (Muñoz-Bullón and Sánchez-Bueno, 2012), which ends up avoiding agency issues (Fama, 1983). Further, as Grupo Rocha encounters itself in an EM, where relationships of trust become even more relevant (Khanna and Palepu, 1997), the altruistic behavior of aiding a member in need might enhance a climate of loyalty, trust and intensive communication among its members, ultimately benefiting the entire company (Tagiuri and Davis, 1996).

In fact, that is exactly what Tony believes. According to the manager, family employees are "benefiting the organization as a whole as valuable workers." There had been some freeriding, however, confirming Chrisman et al.'s (2005) theory that FB also must deal with agency costs. Nonetheless, being employees at lower levels of the enterprise chain, it is not as troublesome to lay them off as it would be with top managers. "Usually they are not committed to work anywhere, so no one takes it at heart. Everyone knows this is an organization, and no one wants it to go downhill," concludes Tony.

As the researcher observed, the relationship environment between members is not as healthy as management exclaim. Tony and Vânia, siblings with great majority of shares, have been struggling to work with each other, giving rise to an unhealthy rivalry (Ward, 2016). The current status might not be so drastic as the pained hearts — deep pockets quadrant, but is going towards this place.

"Conflict has always existed," claims Mr. Rocha, "but Jorge was more diplomatic than both Vânia and Tony, he could separate work from family relations." Furthermore, the former reason for conflict was the absence of a leader caused by a nonnormative disruption (Carsrud and Brannback, 2011).

5.3. Diversification Evidence

Following Khanna's insights (2001), Grupo Rocha can be defined as a BG on the grounds that it is composed by legally independent firms bound together by formal and informal ties. Yet, more importantly than its corporate law structure, the underlying sociological aspects which can be found in the group is paramount so to attribute to GR such a denomination. Thus, Grupo Rocha is a BG not only because it is legally organized as such, but because the relationships between its members —

linked by a family lineage — develops within the enterprise a long-term strategic goal, aiming both financial and non-financial goals (Granovetter, 2010).

As most BGs, Grupo Rocha adopted the diversification strategy very early in its life-cycle (Khanna, 2001). One must remember that, according to academic literature, the one most valuable reason to diversify is to develop synergies (Ansoff, 1965; Besanko et. al., 2000; Goold and Luchs, 1993; Prahalad and Hamel, 1990 Reed and Luffman, 1984) or, as Porter (2008) puts it, horizontal strategy. In the present study's case, however, synergy effects are extremely limited, not being, as a result, the main reason for such an approach. Following the reasoning behind the first research question, why did Grupo Rocha started diversifying, then?

5.3.1. Diversifying through latent opportunities

Grupo Rocha's diversification strategy has had divergent motivations. The very first alternative venture — O Amigão — started very weakly. Just like it, Mr. Rocha had had some alternative investments so to capitalize available rooms that were too small to build a fast-food unit. These are, however, to small and insignificant in the eyes of the entire company to even be described as a diversified endeavor. Such minor projects, such as a cookie store and a market, naturally faded away as the company acquired nearby shops so to increase its size or sell it as a real estate investment. Yet, O Amigão went far to the point of becoming the prime enterprise of the entire group. How did it happen?

Contrary to academic reasoning toward a diversified strategy, which implies that a firm purposefully considered all the advantages of such an approach *ex ante* the endeavor — such as flexibility, growth, image building, synergies and higher utilizations of skills (Das and Mohanty, 1981; Reed and Luffman, 1984) — our case proves that it is not always the case. The author believes that this happens because there is a notorious lack of *in loco* small-FBs' evidence in the present literature. Thus, since lots of attention has been given to diversification ventures from major BGs, which are evidently more organized so to evaluate opportunities, few answers had been given to how the small companies decide to diversify.

As it turns out, O Amigão — or "Tudo por 1,99R$", as it was formerly known — did not grow through calculated choices. Indeed, no evidence of planned events were found. Even though through a *post hoc* analysis one can explain how it grew, very little proof is available on why did it start in the first place. Thus, we propose:

P1. The more diversification, the less opportunity costs.

The first proposition raises a fair amount of questions. First, how can a firm that did not have a plan to diversify was able to compete against local and, even odder, powerful international players? A fair number of articles were written about huge BGs advantages (Khanna, Palepu and Sinha, 2005), but just a few hints were given about how smaller local players do thrive against stronger worldwide competitors (Bhattacharya and Michael, 2008).

One of the answers we were able to find concerning the present study is that, for being immersed in the country's environment, Grupo Rocha and other retailers were able to capture what Rumelt (2011) calls a "wave of change", which international competitors did not, at least not so rapidly: the end of the hyperinflation era — that ended in the late-90s (figure 1) — enabled stores to work with fixed prices, a novelty that Brazilians were not used to and greatly appreciated. Even though, as the first proposition states, there was no strategic goal whilst selling as a discount store in the very beginning, for having contact capabilities within the community, the group could capture the new stream of opportunity and enjoyed a first mover advantage. Regarding such conclusion, we propose:

P2. The more contact capabilities, the more adaptation to waves of change.

Moreover, O Amigão's success was triggered by a latent and unpredictable opportunity within the market, which previous smaller ventures did not enjoy. The second proposition also suggests that FB react more rapidly to local changes than non-family firms. Such statement not only reflects Kock and Guillén's (2000) proposition, who claim access to capital is easier by nurturing relations by having a solid family image — which holds true to the present case — but also introduces the idea that access to entrepreneurial projects is increased when such capabilities are rightly used.

5.3.2. Diversification due to Family Crisis

Besides the aforementioned motivations to diversify, evidence was found in the present case that an alternative second answer could be given to the first research question: "Why do FB diversify?".

Unlike the previous chapter, in which only extrinsic motivations were appreciated, intrinsic motives are here put into perspective. Essentially, researchers believe family-driven reasons to diversify are usually connected with succession plans to engage the next generation into the business. We found no proof in our analysis of such reality, though Lansberg and Perrow's (1991) appreciation of the second generation — in our case, third — impulse to diversify in Latin American countries was confirmed.

So far, it is believed that FB avoid diversifying in order not to threat its socioemotional wealth (Gomes-Mejia, Makri and Kintana, 2010). Assuming the company and the family are in Sharma's (2004) warm-hearts and deep-pockets quadrant, such statement seems believable. Still, human interactions are not always that simple. Thus, we found evidence in our case that, whilst in conflict, FB tends to diversify in order to avoid more head-to-head disagreements.

Such conclusion is tricky. In fact, even though both Mr. Tony and Mrs. Vânia assumed arguments increased since Jorge passed away, neither of them appeared to relate Baby & Kids' appearance with the disruption. When asked why to invest in this venture rather than concentrate their resources and efforts into the first two, no clear answer was given towards a clear corporate strategy. Plus, as previously analyzed, very few synergies are maintained between the two businesses, and the reason might be that such sharing process would increase contact and, consequently, conflicts between both parties. Consequently, we propose:

P3. The more conflicts, the more diversification.

So, even though Baby & Kids emergence seems similar to O Amigão's on a first glance, after some analysis, they are remarkably distinctive. The former diversification venture only continued because it captured a market opportunity, whereas the second did so to avoid direct confrontation. Secondly, even though very little could be shared between O Amigão and O Reizinho — even technology within the group was extremely limited — the company tried to benefit from its possibilities. Baby & Kids, though with more synergic potential than O Reizinho, has not tried to profit from customer linkages O Amigão has developed throughout the years and has, essentially, a completely separate value chain from the discount retailer.

The financial results of such misguidances are evident. O Amigão has stablished itself as backbone of the group, whereas Baby & Kids is still drastically behind and with no perspective of conversion. As corporate strategy cannot explain the decision to keep investing on the business instead of joining forces so to strengthen the major venture inside the firm, and regarding the current conflicts between the siblings, the clothing firm's existence is not justified not by either business decisions or family altruism, but rather to avoid further confrontation. Furthermore, we also propose that.

P4. The more conflicts, the less the diversified unit will perform.

5.4. Diversification Effects on FB

Regarding the second research question — how does the diversification strategy affects family ties and firm's performance? — an exploratory approach is more suitable (De Massis and Kotlar, 2014).

O Amigão was a successful diversification venture. As a result, seldom such a result would be the cause of a conflict. However, as we have seen, there is a link between the incentives to diversify and the success itself. Hence, since the motivation to build the business in the first place was to improve the FB's wealth, had O Amigão not succeeded, the author believes the flop would not jeopardize the socioemotional status of the family. Following this line of thought, the clan would not lose the capabilities that make it unique and could be able to turn the problem around, as Mr. Rocha did with O Reizinho several times. Baby & Kids' underlying incentives were not the same, however, since motivation towards the move was not constructive, but harmful. Thus, one would expect that the opposite scenario is more likely, in which the diversification will endanger the socioemotional wealth of the family and make it lose its unique capabilities.

Concerning Granovetter's (1973, p. 1361) definition of ties as "a combination of the amount of time, the emotional intensity, the intimacy and the reciprocal services" between people, one should assume that, if the *familiness* is what gives the FB an edge over its competitors (Habbershon and Williams, 1999), and if it is nurtured by preserving the ties among members, the family that loses the ties will eventually be deprived of the advantages, though not the downsides of a FB structure.

In Grupo Rocha's case, the latter diversification business did indeed decreased overall firm's performance and increased the conflicts between the siblings. As they try to avoid further divergences by not interacting as much so to preserve the *status quo* of the company, one might expect that both ties and, therefore, competitive advantage, will be weakened (Granovetter, 2010). If this process continues to feed itself, the next generation of members may not be able to deal with the onus of recruiting family employees and lack of expertise without the levels of trust needed to keep essential resources such as social capital and patient capital — meant to be saved for long-term investments and to eventual downfalls — within the firm. From here emerges the following proposition:

P5. The more harmful the diversification is, the less contact family members will have.

Still, this is not the only case of a diversification venture affecting ties among members. As contemplated during the case description, a shared capital market structure, supposedly one of the main advantages of a Business Group in an Emerging Market (Khanna and Palepu, 2006), worked rhythmically throughout the beginning of Grupo Rocha's new industry endeavors. Nevertheless, the current situation — in which little financial resources have been shared between the fast-food and the discount retailer's chains — is atypical. In theory, the bigger the group gets, the more synergies between its individual businesses are needed so to maintain a competitive advantage (Kock and Guillén, 2000). In the O Reizinho/O Amigão case, however, the cooperation among units decreased. We believe the reason for that lays on the grounds that as family managers worked separately — in which Mr. Jorge's absence played a role — the ties within the clan weakened and they started behaving more individualistically and consequentially became less keen on adjusting the overall firm strategy so to benefit the group. Consequently, we propose:

P6. The less contact between family members, the less socioemotional wealth.

The effect of weakening socioemotional wealth of the family has been a concurrent topic in FB research. In fact, studies have shown that as family branches appear and identify themselves as nurtures of their own subgroups, the risk of conflicts (Davis and Harveston, 1999) and emotional detachments through independent routines (Sciascia, Mazzola and Kellermanns, 2014) increases. What we propose is that the diversification strategy might enhance such process by stablishing independent units in which family members are even more prone to provide for their own good rather than for the group, which is a link researchers are yet to stablish.

Furthermore, assuming FBs have both financial and non-financial goals (Chrisman, Chua, Pearson and Barnett, 2012) and that they are both equally needed so the firm can maintain its competitive advantage (Habbershon and Williams, 1999; Kock and Guillén, 2000; Sharma, 2004), if such propositions hold true, they might undermine future economic performance. Once again, this helps to explain why only 13% of FBs survive through the third generation: not only due to business results, but also thanks to the transformation of a FB into a business that happens to be owned by families.

Chapter 6
Conclusion

The present study essentially intended to broaden the scope of research in the field of diversification strategy on FBs by understanding under which circumstances both concepts interact with each other. To that end, a single case study was undertaken in which a medium-sized privately-owned Brazilian family company's diversification decisions were analyzed throughout its history. With that example in mind, we believe state-of-art literature still misses much of the motivations and effects of diversifying on non-gigantic BGs within EM.

In Grupo Rocha's case, there were two waves of diversification. In both of them we found idiosyncratic motivations that are not thoroughly explored in academic research. Firstly, we found out that FB do not always diversify with deep corporate strategy intentions. In fact, the earliest approach towards diversification was to capitalize an empty store so to avoid opportunity costs until a decision towards how to use was made. Secondly, a link between family crisis and diversification was found. By diversifying without deep links between businesses, family members are able to avoid immediate conflicts. However, on the long-run, such decision proves to be destructive. Disintegrating the chain-link system between the businesses will wear out the ties between family members, deplete their unique resources and further erode their competitive advantage.

The issue of a single case-study lays on the grounds that replication is required. One single-case cannot provide patterns for further research. Nonetheless, we believe the present research still proves to be useful for current FBs managers. By spotting destructive approaches towards diversification, they might be able to revert the process until entropy becomes overly complex. By understanding that not all decisions are made entirely on an economic basis, one can explore its advantages and dodge from its downsides. The problem arises, however, when family members are unwilling to accept the disruptions and rather deal with them by avoiding interactions. Such issue asks for a sociological approach that is beyond the aim of the present work.

Further research is required so to scrutinize the overall success of family-controlled BGs on EM. The author would mainly suggest an approach towards smaller firms rather than gigantic corporations which have been extensively studied.

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List of Tables

Table 1: O Amigão's shareholder structure

O Amigão's Shareholder Structure

		Family Members											Non-family Members			
	Stores	Tony	Vânia	António	Jorge	Monique	Alex	Andrea	Sérgio	Olinda	Judith	Glória	Correa	Fátima	Lúcia	Total
1	Nova Iguaçu	18,75%	18,75%	18,75%	18,75%	13%	12%	-	-	-	-	-	-	-	-	100%
2	Campo Grande	20%	20%	20%	20%	-	-	-	-	-	-	-	20%	-	-	100%
3	Central do Brasil	25%	25%	25%	25%	-	-	-	-	-	-	-	-	-	-	100%
4	Alvarenga	18,75%	18,75%	18,75%	18,75%	13,00%	12,00%	-	-	-	-	-	-	-	-	100%
5	Centro	16,66%	16,66%	16,66%	16,66%	-	-	-	-	-	-	-	16,66%	16,66%	-	100%
6	Bonsucesso	16,66%	16,66%	16,66%	16,66%	8,33%	8,33%	-	-	-	-	-	16,66%	-	-	100%
7	Duque de Caxias	16,50%	16,50%	16,50%	16,50%	-	14%	-	10%	-	-	-	-	-	10%	100%
8	Cascadura	20%	20%	40%	20%	-	-	-	-	-	-	-	-	-	-	100%
9	Madureira	20%	20%	20%	20%	-	20%	-	-	-	-	-	-	-	-	100%
10	Teresópolis	30%	20%	30%	-	6,67%	6,67%	6,60%	-	-	-	-	-	-	-	100%
11	Taquara	18,25%	18,25%	18,25%	18,25%	14%	13%	-	-	-	-	-	-	-	-	100%
12	Alcântara	18,75%	18,75%	18,75%	18,75%	13%	12%	-	-	-	-	-	-	-	-	100%
13	Duque de Caxias	12%	12%	26%	12%	14%	6%	-	12%	2%	2%	2%	-	-	-	100%
14	São João de Meriti	17,50%	17,50%	17,50%	17,50%	20%	10%	-	-	-	-	-	-	-	-	100%
15	Tijuca	25%	25%	25%	25%	-	-	-	-	-	-	-	-	-	-	100%
16	Madureira	18,75%	18,75%	18,75%	18,75%	10%	10%	5%	-	-	-	-	-	-	-	100%
17	Itaguaí	20%	20%	20%	20%	6,70%	6,70%	6,60%	-	-	-	-	-	-	-	100%
18	Freguesia	90%	-	-	-	-	-	10%	-	-	-	-	-	-	-	100%
19	Santa Cruz	30%	20%	30%	-	6,70%	6,70%	6,60%	-	-	-	-	-	-	-	100%
20	Sulacap	30%	20%	30%	-	6,70%	6,70%	6,60%	-	-	-	-	-	-	-	100%
21	Nilópolis	40%	20%	40%	-	-	-	-	-	-	-	-	-	-	-	100%
22	Guadalupe	40%	20%	40%	-	-	-	-	-	-	-	-	-	-	-	100%
23	São Gonçalo	40%	20%	40%	-	-	-	-	-	-	-	-	-	-	-	100%

Table 2: Number of related versus non-related managers

	Number of employees	Number of family members	Manager
Human Resources	6	0	Non-family member
Administrative Department	5	1	Family member
Tax Department	3	0	Non-family member
Financial Sector	7	2	Family member
IT	4	0	Non-family member
Buying Force	13	2	Family member
Exports	1	1	Family member
Other functions	12	0	
Total	51	6	

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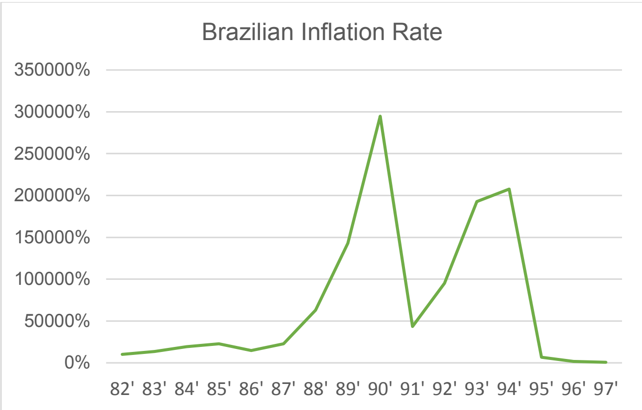

Figure 1: Brazilian inflation rate

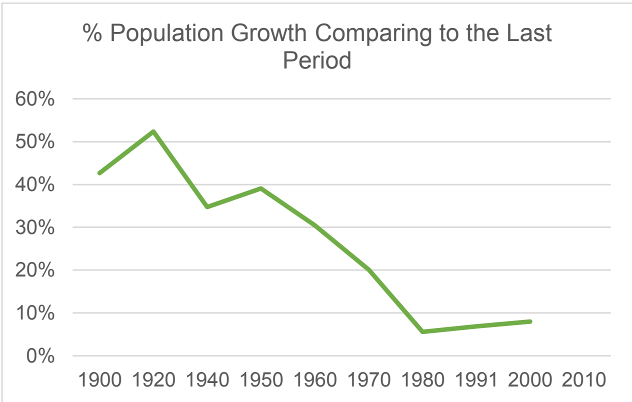

Figure 2: Brazilian's population growth when comparing to the last period

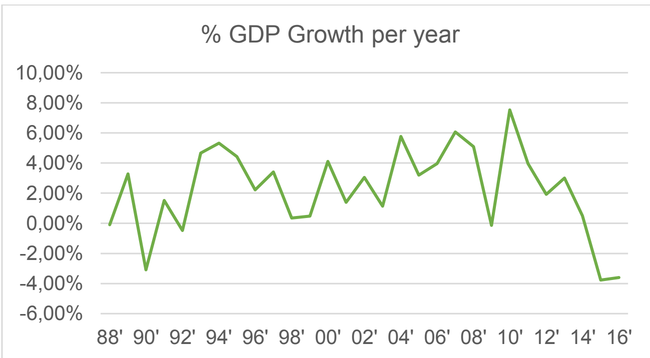

Figure 3: Brazil's GDP Growth per year

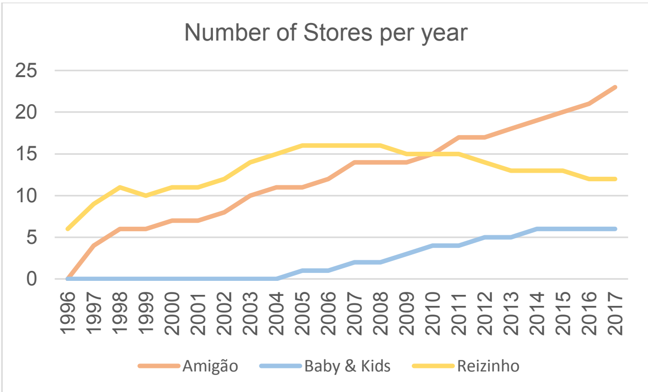

Figure 4: Number of Stores per year

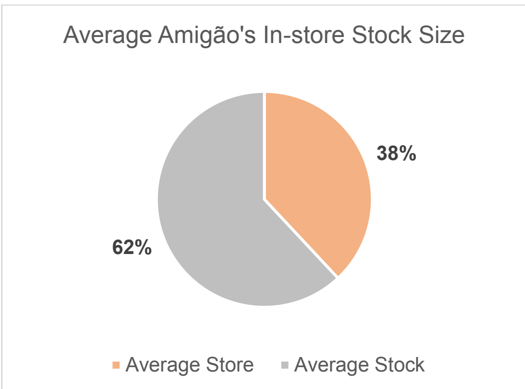

Figure 5: Average O Amigão's in-store stock %

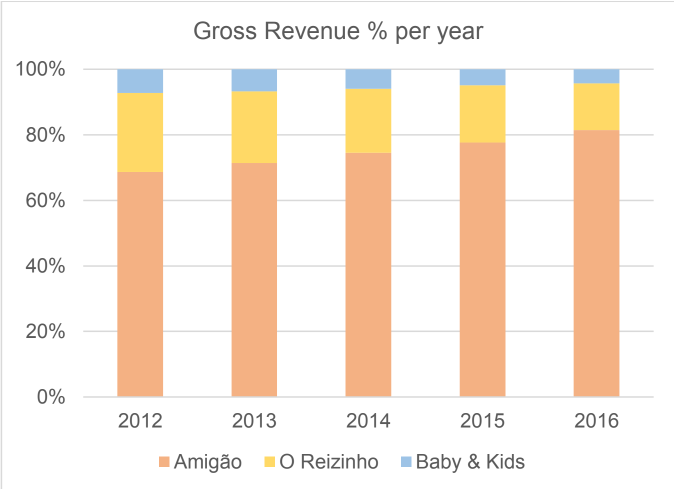

Figure 6: Gross Revenue % per year

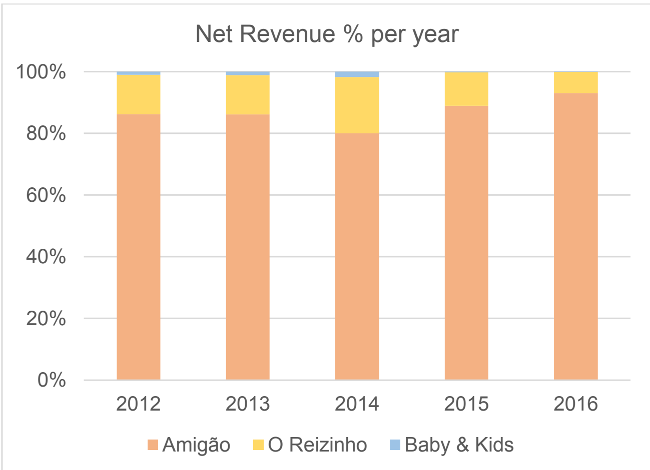

Figure 7: Net Revenue % per year

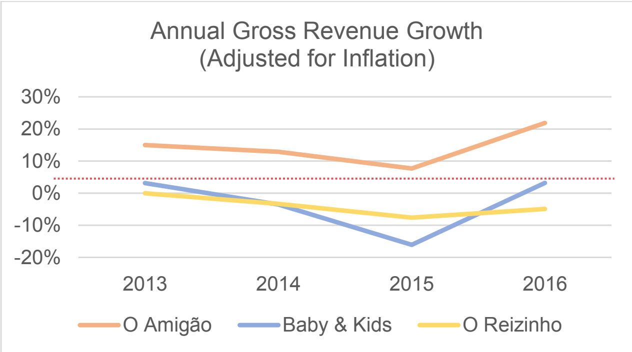

Figure 8: Annual Gross Revenue Growth

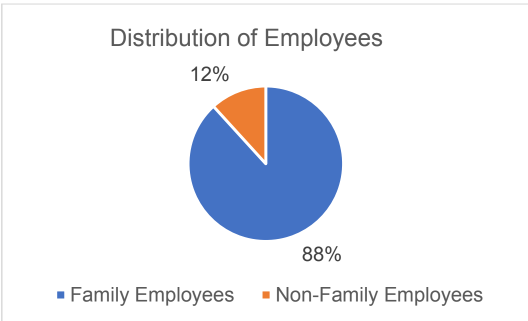

Figure 9: Distribution of family versus non-family employees within the headquarters

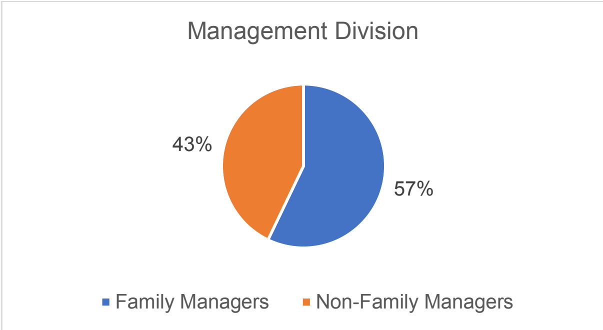

Figure 10: Management division within the headquarters